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Oilseeds and Products Annual - 2011

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Oilseeds and Products

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Report Highlights:

Oilseed cultivation remains a very small component of agricultural production in Afghanistan and contributes a very limited amount of cooking oil for domestic consumption. Demand is primarily satisfied by imported palm oil although there is demand for other imported oils, including U.S. soybean oil, in the market. Post estimates vegetable oil consumption at 345,000 tons in 2011, growing approximately four percent from 2010 despite rising international cooking oil prices.

General Information

Oilseeds are not grown in significant volume in Afghanistan. Production of select oilseeds, namely sesame, cotton, and flaxseed are grown in pockets throughout Afghanistan and processed locally through human or animal powered processes into cooking oil and protein meal. Oilseed production potential will remain limited due to the lack of suitable industrial centers to process the oilseeds into protein meal and cooking oil at competitive levels relative to low priced imports. Additionally, there is little awareness of proper livestock nutrition and the benefits of protein in feed. Domestically produced cooking oil faces stiff competition from low cost palm oil originating in Indonesia and Malaysia.

Domestic Production

Domestically grown oil crops contribute less than 10 percent of the cooking oil consumed in the country. According to the United Nations Food and Agriculture Organization (FAO)¹, approximately 50,000 hectares of cotton, 47,000 hectares of sesame, 39,000 hectares of flax or linseed, and 12,000 hectares of sunflower are planted each year. Annual oilseed production is just less than 100,000 tons. Additionally, an estimated 2,300 hectares of olive trees are harvested producing an estimated 1,600 tons of olives. Cotton production is concentrated in two distinct regions in Afghanistan, the Helmand river valley in the south and the irrigated lowlands in northern Afghanistan. Sesame, largely cultivated in northern and western provinces, is the second largest oilseed in terms of production. In recent years development firms have introduced Afghan farmers to soybeans and a small amount of annual production endures. Oilseeds are not a traditional crop in Afghanistan and a general lack of agronomic know-how when it comes to oilseed cultivation will result in oilseed cultivation remaining minimal, localized in pockets throughout the country.

Most domestically grown oilseeds are processed by animal-driven presses or oil screw expellers and the oil and oil cake are sold directly to consumers and farmers. In recent years some domestic small scale industrial oilseed crushing capacity has begun operations. For instance, a cotton oil factory in Helmand province and an olive oil factory in Nangarhar province have recently become operational and supply

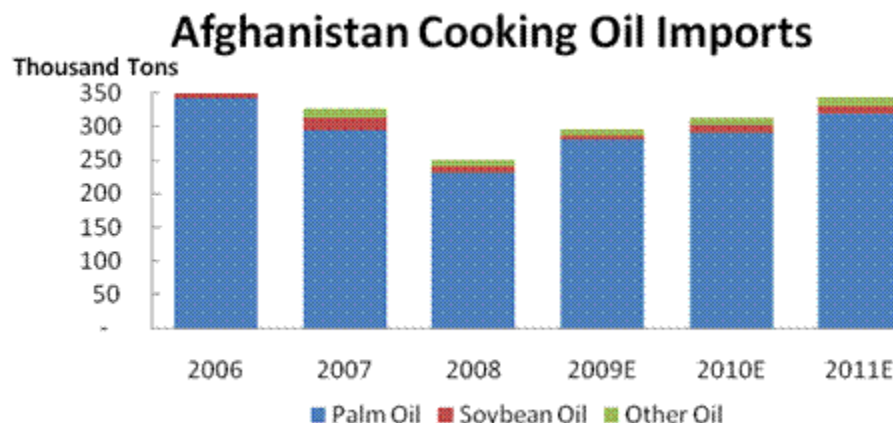
¹ These statistics are at least two years old but are the best source of reliable agricultural statistics for Afghanistan. Government statistics, updated on an annual basis as a result of a crop season, remain unreliable.

small quantities of cooking oil to the local market. Additionally, the Northern Afghanistan Project for Cotton and Oil Development (NAPCOD), a joint venture between the Government of Afghanistan and Development des agro-industries du Sud, a French development implementer, has operated a cotton gin, cottonseed crushing, and oil extracting factory in Mazar-e-Sharif since 2006.

There are a few larger scale palm oil refiners operating in different parts of country which take imported crude palm oil and refine it into solid ghee. Post estimates that the domestic crude palm oil refining capacity is 35,000 tons annually.

Cooking Oil Consumption

Afghanistan is highly dependent on imported cooking oil to meet demand. In fact, imports make up over 90 percent of the market. Imported cooking oils consist of sunflower, corn, canola, soybean and palm oils in the form of fluid vegetable oil and solid ghee. Palm oil and soybean oil dominate the import market making up 95 percent of imports and approximately 85 percent of total consumption. Post estimates the demand for cooking oils in Afghanistan at 345,000 tons in 2011 growing at a rate of four percent per year. Per capita consumption is estimated at 11 kilograms per year and will continue to increase as incomes rise in Afghanistan. Sunflower oil and corn oil have preference as healthy oils among wealthy, urban Afghan consumers but are consumed in very small quantities. Sun and corn oil typically are imported from Former Soviet Union countries and Iran. Low cost palm oil originating from Indonesia and Malaysia dominates the market. Soybean oil monetized as part of U.S. Department of Agriculture's (USDA) Food for Progress Program is preferred by many importers and consumers but is commercially uncompetitive at this time due to palm oil's discount vis-a-vis soybean oil and the cost of shipping from the United States.



Source: FAO data 2004-2008, Post Estimates 2009-2011

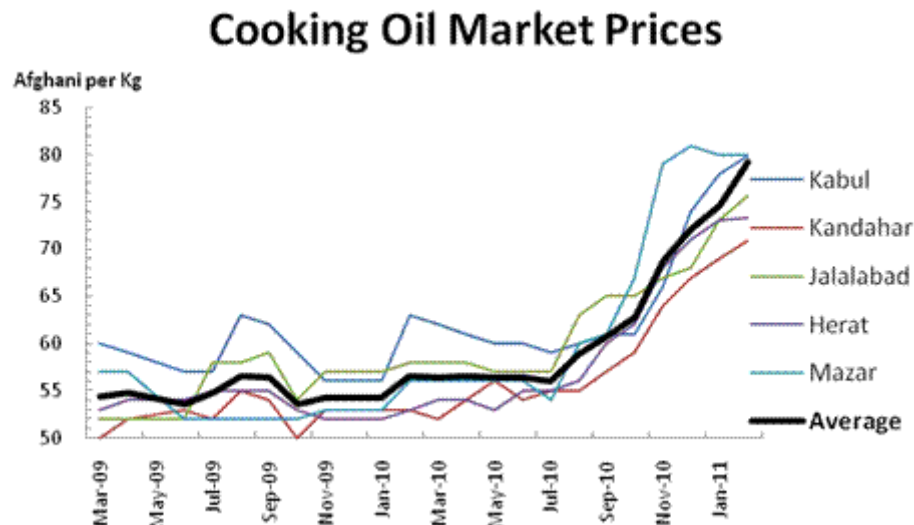
Oil Cake Consumption

Afghans livestock producers have a limited awareness of proper oil cake inclusion in feed rations. However, domestic production of oil cake does not meet demand and a small number of traders import animal feed including wheat bran, oil cakes and other feeds to meet seasonal winter demand. It is estimated that 90 percent of livestock are held by Kuchi, a nomadic ethnic group, that are uneducated and in most cases illiterate. Growth in demand for oil cake as a source of animal feed is directly tied to the degree in which Kuchi utilize it as feed and will be constrained in future years until better educational services are available to the Kuchi. Sedentary farmers report that oil cake inclusion increases during winter as the availability of other feed sources decrease. After years of drought the livestock sector has grown in the last couple of years as ample pasture regeneration has spurred an increase in livestock numbers. This has boosted the demand of oil cake and other feed sources.

Cooking Oil Prices Move Upward

According to a monthly World Food Program price survey, cooking oil prices in the five major cities in Afghanistan have steadily increased since July 2010, increasing almost 30 percent. This increase is tied to the price increase for palm and soybean oil on the international market which is linked to rising petroleum prices and a customs stoppage in Karachi. Recently, a stoppage of all commercial containers transiting through the seaports in Karachi bound for Afghanistan has caused cooking oil prices to spike in Afghanistan's major cities. Virtually all palm oil imported by Afghanistan comes through ports in Karachi. Due to the stoppage, Afghan traders now report traffic being diverted to Bandar Abbas in

Iran. Once this customs issue is resolved Post anticipates cooking oil prices to decrease and remain at levels similar to before the July 2010 run up.



Source: WFP – VAM Market Price Bulletins

Prospects for U.S. Soybean Oil Exports

U.S. soybean oil, monetized as part of USDA Food for Progress Programs, has developed a market niche in Afghanistan. USDA has awarded a number Food for Progress grants to private voluntary organizations and the Government of the Islamic Republic of Afghanistan since 2003. These grants were funded through the monetization of U.S. soybean oil in Afghan market. USDA has monetized an average of 8,000 tons of soybean oil each year since 2003. Over time, importers, distributors, and consumers have developed a taste for U.S. soybean oil and recent monetizations have occurred at prices very close to international prices plus transportation indicating that trade could occur on commercial terms. Unfortunately, Afghan importers remain constrained by a lack of international trade knowledge prohibiting them from signing international contracts with U.S. soybean oil producers. Importers knowledge of and ability to engage in international trade has improved exponentially since 2001 and it is only a matter of time before Afghan importers sign contracts with U.S. firms to import soybean oil.